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Economic and Social Council

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Special high-level meeting with the Bretton Woods institutions
29 April 1999

Functioning of international financial markets and stability in financing for development

Note by the Secretary-General

1. As a result of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions in April 1998, the General Assembly in resolution 53/172 of 15 December 1998 invited the Secretary-General to support the Council in the organization of a second such dialogue in 1999. The Assembly in resolution 53/169 of 15 December 1998 suggested that the dialogue address ways and means to optimize the benefits and minimize the negative consequences of globalization and interdependence, particularly for the developing countries. In the light of this request and in order to provide some continuity with the 1998 meeting, the theme selected for the present meeting is the functioning of international financial markets and stability in financing for development. The present note identifies some of the questions that participants might wish to address within this general framework.

I. Measures to promote recovery in the developing and transition economies

2. As the fallout from the initial financial crisis in Thailand enters its third year, weak international trade and the negligible improvement in private financial inflows mean that most developing and transition economies continue to face a tight external payments constraint. Such an international economic environment is not propitious for adjustment and economic growth.

3. In this light, the following questions might be addressed:

- What additional measures should be taken to improve the growth prospects of developing and transition economies, including accelerating the return to former levels of income per capita in crisis-stricken countries?
- How can the vulnerability of developing and transition economies to the contagion processes that operated in 1997-1998 be reduced?

II. Financial architecture and financial flows for development

4. The depth and breadth of the crisis and the shortcomings that it has exposed have given rise to numerous suggestions from many quarters for reform of the international monetary and financial "architecture". The Interim Committee of the Board of Governors on the International Monetary System (International Monetary Fund (IMF)) will have discussed a number of such reforms

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at its meeting in April 1999. For its part, the United Nations Secretariat has identified a set of proposals for reform.[1]

5. In the light of these and various other proposals, the following questions might be addressed:

- What progress has been made in the reform of the international financial architecture and what remains to be done?
- Will the necessary reforms materialize if the perceived threats to the system diminish?
- What national and international actions can be taken to increase the level and stability of longer-term flows of development finance?

III. International policy on external debt

6. At its launching, the Heavily Indebted Poor Countries (HIPC) Debt Initiative of the World Bank and IMF was recognized as a breakthrough in addressing the debt problems of this group of countries. However, the past two years have seen civil society and non-governmental organizations increasingly question international policy regarding the treatment of the external debt of many of the low-income countries. In the past few months, several creditor Governments have floated proposals for deeper and quicker debt relief for heavily indebted poor countries. Meanwhile, the World Bank and IMF have been undertaking a survey of the views of the public on international debt policy and the findings will have been discussed at the Interim and Development Committees in April. At the G-7/G-8 World Economic Summit in Cologne in June, participants are expected to revise their policies in this area.

7. In the light of these developments, the following questions might be addressed:

- Should there be outright debt cancellation for heavily indebted poor countries?
- What mechanisms should be used to secure the financial resources necessary to provide debt relief, particularly on multilateral debt?
- Should debt relief continue to be seen as a quid pro quo for the adoption of appropriate policies?
- Should the resources made available through debt relief be redirected to human needs, such as basic education and health services, and if so, how?

IV. Economic crisis and social policy initiatives

8. The World Summit for Social Development in Copenhagen raised expectations that substantial and rapid global progress would be made in rolling back poverty and unemployment and promoting social integration. However, the financial and economic crises have erased much of the progress that was made in reducing poverty levels in South-East Asia in previous years, there has been negligible success in reducing poverty in Africa and Latin America in the 1990s, and poverty rates in a number of transition economies have returned to levels unknown for decades.

9. Recent experience has focused attention on the need to address the negative social consequences of financial crises and their aftermath. At the same time, greater attention is now being given to the role and importance of the provision of basic social services in the development process. Reflecting this increased determination to meet social needs and objectives, a draft set of "general principles of good practice in social policy" has been prepared by the World Bank and is expected to be discussed by the Development Committee at its April meeting.

10. In the light of these developments, the following questions might be addressed:

- How can the international goals established at the Copenhagen Summit be better integrated into national stabilization and adjustment programmes?
- What additional measures, beyond those contained in the Programme of Action of the World Summit for Social Development,[2] adopted at Copenhagen, need to be taken at the national and international levels in order to reduce the social consequences of future crises?
- How should international assistance in crisis situations ensure that the social impact is mitigated?

V. Further cooperation between the United Nations and the Bretton Woods institutions

11. The second joint meeting between the Economic and Social Council and the Bretton Woods institutions represents one of a number of further steps that have been taken to increase cooperation, at all levels, among the United Nations, IMF and the World Bank. Both Member States and the organizations themselves recognize the need for this

cooperation to be further broadened and deepened. In addition to continuing the recent initiatives, some further developments provide additional opportunities for cooperation.

12. The General Assembly has embarked on a process that is to lead by 2001 to a high-level international intergovernmental consideration of financing for development before the end of 2001.[3] An ad hoc open-ended working group is required to make recommendations to the Assembly at its next session on the form, scope and agenda of such a consideration. Many of the issues being considered under this rubric lie within the purview of the Bretton Woods institutions. The following question could therefore be addressed:

- How might the Bretton Woods institutions be linked with discussions in the United Nations on financing for development?

13. In his 21 January 1999 memorandum to the Executive Board, the President of the World Bank proposed the elaboration of a Comprehensive Development Framework (CDF).[4] The objective of the CDF is to develop a comprehensive and holistic approach to the sequencing of policies, programmes and projects and the pacing of reforms at the country level. In the light of this proposal, the following questions could be addressed:

- How will the CDF relate to the United Nations Development Assistance Framework (UNDAF) which is also intended to facilitate the design and coordination of country-driven, collaborative and coherent development programmes?[5]
- How should IMF programmes be related to the CDF and UNDAF?

Notes

[1] Report of the Executive Committee on Economic and Social Affairs of the United Nations, entitled "Towards a new international financial architecture", 21 January 1999 (on the Internet at www.un.org/esa/coordination/ifa).

[2] *Report of the World Summit for Social Development, Copenhagen, 6–12 March 1995* (United Nations publication, Sales No. E.96.IV.8), chap. I, resolution 1, annex II.

[3] See General Assembly resolutions 52/179 of 18 December 1997 and 53/173, of 15 December 1998. Further information on the financing-for-development process is available on the Internet at www.un.org/esa/analysis/ffd.

[4] Available on the Internet at http://www.worldbank.org/cdf/cdf.pdf.

[5] See General Assembly resolution 53/192 of 15 December 1998.

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Corrigendum

Paragraph 6, last sentence

For G-7/G-8 World Economic Summit in Cologne *read* G-8 Economic Summit Cologne 1999

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